UNITED
NATIONS

TD

United Nations Conference on Trade and Development

Distr.
LIMITED

TD/B/CN.4/L.12/Add.1
21 July 1994

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Standing Committee on Developing
Services Sectors: Fostering Competitive
Services Sectors in Developing Countries
Second session
Geneva, 18 July 1994
Agenda item 9

DRAFT REPORT OF THE STANDING COMMITTEE ON DEVELOPING SERVICES SECTORS: FOSTERING COMPETITIVE SERVICES SECTORS IN DEVELOPING COUNTRIES ON ITS SECOND SESSION

Held at the Palais des Nations, Geneva,
from 18 to 22 July 1994

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Note for Delegations

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GE.94-52998

Chapter I

PROGRESS REPORT BY THE SECRETARIAT ON THE IMPLEMENTATION OF THE WORK PROGRAMME OF THE STANDING COMMITTEE

(Agenda item 3)

(continued)

52. The spokesman for the **African Group** (Tunisia) said that her Group was aware of the increasing importance of the services sector in international trade and in the creation of employment.

53. In its report TD/B/CN.4/24, the UNCTAD secretariat underlined the strategic role of services in the economy of developing and developed countries. However, the developing countries, contrary to the developed countries, did not benefit from access to technology and to financial resources. Hence, the situation of developing countries remained precarious, except for some Asian countries, and foreign exchange earnings were generated by workers' remittances or by the consumption of services at home (travel, tourism). Furthermore, concessions by African countries in the context of the Uruguay Round related to sensitive sectors for the economies of their countries such as finance, insurance and tourism sectors.

54. The African countries had started to promote the services sector and had began a policy of progressive privatization of services enterprises, which had until recently been under State monopoly. In that context, their needs concerned financial resources, qualified human resources, access to high technology and a better knowledge of market mechanisms in the area of services.

55. She noted that the African countries needed particular assistance from the international community. This assistance could focus on the modernization of their telecommunications infrastructures, enabling them to be more competitive and receptive to foreign investments.

56. In this context, the UNCTAD report stressed the difficulties faced by developing countries in accessing international markets and increasing their share

of international trade in services. These difficulties were mainly due to the restrictive business practices of the transnational corporations. The African Group felt that the Committee should examine these practices in order to enable African enterprises to participate in international trade. The African Group also felt that the Committee should identify the best ways for developing countries to strengthen sectors where they had a comparative advantage, such as movement of qualified persons.

57. The African Group considered that the idea of establishing a database on measures affecting trade in services was interesting. It therefore supported the view that the Committee should adopt a recommendation inviting the secretariat to set up this database and called upon countries to provide the necessary information, in the spirit of Cartagena, on transparency in the area of trade in services.

58. She noted that regional cooperation was important in Africa. As indicated in the note prepared by the secretariat, several areas of subregional cooperation had been set up in Africa. For example, the treaty creating the African Economic Community had come into force recently in Tunisia. The considerable number of regional agreements was an indication of the importance attached to a regional approach to overcoming internal and external difficulties of the African economies.

59. The representative of **India** noted that, although the GATS represented an attempt at liberalization of service trade with increasing participation of developing countries, the latters' market access opportunities had been constrained by the conditionalities attached to modes of delivery, market access and national treatment. It was hoped that, at the end of the ongoing negotiating process, a larger package of benefits for developing countries would emerge.

60. With regard to future work under the Standing Committee, the creation of a database of laws and regulations governing trade in services in sectors of interest to developing countries was of particular importance. UNCTAD could start some preliminary work on national accounting systems for services, as quantification of benefits and rational liberalization would depend on an adequate statistical base. There was an urgent need to study the issue of movement of personnel, as this mode of delivery could easily be rendered illusory by the application of regulations on entry and recognition of qualifications. Developing countries could use the information resulting from the study in the ongoing negotiations. This exercise would also be important for discerning inadvertent or deliberate denial of benefits.

61. The issues of preferential treatment and the environment should also be taken up for study. For the former, the possibility of extending preferences similar to those of the GSP scheme to the services sector could be studied, and for the latter a study would be required to analyse the implications of environment aspects surfacing in trade issues for the services exports of developing countries.

62. Finally, work in all these areas needed to be taken up simultaneously and in accordance with an established time schedule so that it would be useful to developing countries in future negotiations and in benefiting from the opportunities made available by the GATS.

63. The representative of **Colombia** said that the conclusion of the GATS agreement was a landmark in the negotiations on services. However, the work was not yet completed, since there were other issues to be resolved, such as the movement of persons, maritime transport, basic telecommunications and financial services. It was also necessary to take into account Article 4 of the GATS on the participation of developing countries in world trade in services. In that connection, as other delegations had emphasized, UNCTAD should support member countries in the analysis of prospects, in the strengthening of negotiating strategies and in the search for comparative advantage.

64. Trade in services was a very new concept for several countries and was still in the course of development. For instance, in Colombia, legislation only defined export trade with regard to goods. Trade in services was thought of by many people as a State function and not as a commercial operation with great potential for the private sector. In this context, he foresaw an important role for UNCTAD in developing the concept of trade in services. This role could be intensified through the promotion of seminars, or through studies on how the services sectors of developed countries had developed. It should also include technical cooperation by experts in the development of legislation in this field. Further work should also be done in respect of the harmonization of statistical data.

65. Finally, trade in services had a great future, and the work of UNCTAD could contribute to the development of the services sectors in developing countries.

Chapter II

PROMOTING TRANSPARENCY

(Agenda item 4)

(continued)

66. A **representative of the UNCTAD secretariat** presented to the Committee the findings of the feasibility study it had carried out on establishing a computerized database to provide information on measures, including laws and regulations, that affected access to world markets of services and service suppliers from developing countries (TD/B/CM/4/26), and demonstrated the prototype database it had developed towards this end. The presentation outlined the approach adopted in the prototype, the major challenges involved, and the major policy options for future work of the Committee in the matter.

67. A database on measures affecting service trade would be a very valuable tool in assisting developing countries to participate more effectively in international trade in services. It would be useful for negotiators in making requests and in assessing offers, for private sector service suppliers in accessing information on the regulatory environment in target markets, for policy-makers in drawing on the experience of other countries in dealing with issues concerning competition and regulation in services, and for academics and researchers in analysing the regulatory situation in the service sector. The prototype database (MAST) included some concepts used in the multilateral negotiations on trade in services, as well as information from a variety of sources.

68. The major challenges concerned the potentially large scope of the database, and the modalities for compiling and updating information. Options for future work in these respects consisted in identifying priority areas for inclusion at the initial stage of work on the database in terms of sectors, countries and modes of delivery. Arrangements would also need to be made for the collection and the updating of data. Furthermore, the possibility of collaboration with regional or international organizations and research institutions which might have structured information on service regulations would also need to be considered.

Chapter III

FOSTERING COMPETITIVE SERVICES SECTORS

(Agenda item 5)

69. For its consideration of agenda item 5, the Standing Committee had before it the following documentation:

"Fostering competitive services sectors - a comparative analysis of services sectors in developing countries: prepared by the UNCTAD secretariat" (TD/B/CN.4/23);

"Temporary movement of persons as service provides: note by the UNCTAD secretariat" (TD/B/CN.4/24);

"Harmonization and recognition of professional qualifications: background note by the UNCTAD secretariat (UNCTAD/SDD/SER/2).

70. The **Chief of the Services Section** said that document TD/B/CN.4/23 represented a summary of the experience acquired by UNCTAD in its technical cooperation programmes with developing countries and additional research that it had conducted. There was a need for this analysis to be strengthened by more information on the experience of developing countries in promoting the competitiveness of their services sectors, bearing in mind that the objective of the Committee's work under this item was to develop the necessary elements to identify policy options.

71. He stressed the difficulties involved in obtaining information on subsidies in the services sector. Most of the information used in preparing the background note had been derived from sectoral studies dealing with practice in a few countries. The Agreement on Subsidies and Countervailing Measures negotiated in the Uruguay Round provided an agreed definition of a subsidy, but there could be difficulties in applying the definitions, concepts and rules derived for trade in goods to subsidies on services. The secretariat study suggested that a better understanding of the impact could be obtained from case studies dealing with sectors of interest to developing countries.

72. With regard to the treatment of services in regional groupings, different approaches had been adopted to liberalize trade in services within these groupings, and in some cases the progress in this respect had been more rapid than expected.

Certain regional and subregional groupings had provided documents regarding recent initiatives to include services more effectively in their integration processes, and the secretariat intended to prepared a background note taking account of the information received from regional and subregional secretariats and members participating in such agreements.

73. UNCTAD's technical assistance on services had been carried out primarily in the context of regional projects which dealt also with trade negotiations, or in the form of national projects, in both cases financed by UNDP. Recently there had been a very successful experience in Africa with a multicountry project financed by other donors (i.e. IDRC of Canada, the Carnegie Corporation and the Government of France). Given the decline in resources available to UNDP, future technical assistance activities by UNCTAD would depend to an increasing extent on such other donors.

74. The representative of **Benin**, presenting the conclusions of a national study carried out in the framework of the UNCTAD Coordinated African Programme of Assistance on Services (CAPAS), said that services in Benin accounted for more than half of GNP, and the share of the sector was growing (46.7 per cent in 1982; 56.4 per cent in 1991). After agriculture, services industries were also the main source of wage and non-wage employment in the structured and informal sectors.

75. Transport accounted for 11 per cent of GDP and for 20 per cent of official employment. Transport services represented crucial infrastructure for other industries, especially for internal and external trade. Road transport was the most important mode, and private operators from the informal sector were dominant. A binational company (Benin and Niger) ran the rail transport system on the line linking Cotonou and Parakou, and while passenger traffic was decreasing, goods traffic was still significant (600,000 tons). Cotonou's harbour had a regional orientation, with extensive facilities that were used by hinterland countries. The traffic (20 million tons) had grown quickly between 1965 and 1987 (+16 per cent), especially with Niger (+25 per cent).

76. Telecommunications represented 95 per cent of post and telecommunications activities (7 billion FCFA). Telecom services would be growing because of the expansion of the network and efforts to improve the services. The new policy of opening the sector and improving the reliability of the network was clear recognition of the importance of information transfer and cheap long-distance contacts for other industries.

77. The private sector was dominant in computer services after government efforts to modernize the sector had collapsed. Computer services were mainly oriented towards training (45 per cent of the turnover), word processing (30 per cent) and hardware sales. Services such as word processing and computer-assisted accounting were developing rapidly in the informal sector, while some services such as maintenance were still underdeveloped.

78. The financial system had collapsed in 1988-1989, and new private institutions had appeared since then in the form of five private banks, specialized financial establishments and informal mutual funds ("Tontines"). The new banks remained reluctant to finance the national economy, long-term credit was scarce,and short-term credit was not distributed proportionately to deposits in banks. Informal mutual funds were successful because of their flexibility and capacity to finance small-scale projects in productive sectors or consumer durables.

79. The financial system remained inadequate to meet the needs of the economy, and efforts should be directed towards the provision of a wider range of services, the development of greater professionalism in credit processing, and firmer control to upgrade management in the specialized financial establishments.

80. Tourism was underdeveloped. Hotel facilities remained limited (3,500 beds) and were located only in the main towns, and most attractions were not linked by adequate transport. Nevertheless, demand was increasing (arrivals had grown by 40 per cent in 1990) for business, congress and leisure tourism.

81. Recommendations had been made with a view to ensuring better integration of services such as transit trade, transport and tourism in the economic policy of the government.

82. The representative of **Ghana**, presenting the findings of a study of selected service sectors made by the National Research Team of Ghana in consultation with an Inter-Institutional Working Group, said that, in Ghana, the service sector had received relatively less attention from policy-makers, who had focused their development efforts on agriculture and industry. Given the serious deterioration of the economy in the 1970s and early 1980s, policies in the service sector had concentrated mainly on the rehabilitation, maintenance and organization of social infrastructure, especially in transport, communications, health and education.

83. The contribution of the service sector to the economy of Ghana had increased steadily, and since 1992 it had the largest share in the country's GDP, accounting for 45.5 per cent in purchasers' value. However, the service sector was dominated by activities and outputs that were not tradeable. Wholesale and retail services, together with government services, accounted for more than 50 per cent of the total value of services in Ghana.

84. Summarizing the findings of sectoral studies on transportation, telecommunications and informatics, tourism, consultancy and research, and financial services, the representative of Ghana outlined the major developments in these sectors. Improvements to all modes of transportation had been carried out as part of the economic recovery programme, and this had contributed to increased internal and international trade. The setting-up of a satellite earth station in 1989 had been a major advancement in the telecommunications sector in Ghana. Tourism receipts had doubled in the country between 1990 and 1992, and there had been increased investments in this area by the public and the private sector. Ghana had also been trying to develop its consultancy services and to penetrate regional and international markets. Financial services in Ghana had also been expanding, and the liberalization of foreign exchange administration had made it easier for importers to secure foreign exchange and had improved the international payments situation, which had in turn spurred on growth in international trade. However, despite the progress made in the formal financial sector, many Ghanaians continued to be served by informal financial service providers such as money lenders, credit unions and thrift societies.

85. Recommendations made by the study on selected service sectors in Ghana included greater focus by the Government on the development of the services sector and continued pursuit of liberalization policies in this area, without discouraging domestic production. Incentives should also be provided for investments in the service sector under the Investment Code, and regulations on expatriate employment and repatriation of profits in service firms should be relaxed. Government investment in the service sector should also be adequate, and it should focus on vital sectors such as transport, telecommunications, health and education. There was a pronounced need for the expansion of the telecommunications network in the country. The waterway and railroad network in the country also needed expansion, so that pressure could be taken off the road infrastructure. In order to promote trade in consultancy services, there was a need for harmonization and recognition of professional qualifications and licences among countries in West Africa.

86. Concerted policies for the development of tourism also needed to be formulated, giving priority attention to heritage tourism, ecotourism and ethnotourism. In the financial services sector, the replacement of rural banks by community banks might be a policy option, and the example of Nigeria in this respect might be studied so that a suitable model for Ghana could be evolved. Licensing procedures might be a means for minimizing fraud in the informal financial services sector. Regulations in the service sector in Ghana had to be simplified and streamlined, and efforts would need to be made to increase transparency.

87. Finally, regional cooperation offered a good avenue for the promotion of production and trade in services, and the Economic Community of West African States (ECOWAS) offered a channel for such cooperation.

88. The representative of the **World Health Organization** (WHO), referring to the activities of the Pan-American Health Organization (PAHO), said that UNCTAD and PAHO had jointly carried out a project entitled "International trade in services: Main issues and opportunities for the countries of Latin America and the Caribbean". The objective of the study was to examine the current situation in the region with respect to trade in services, and to define the main issues and provide guidelines for policy-making by health-sector and foreign-trade leaders in the countries studied. The focus had been on different modalities of trade in health services.

89. With regard to comparative advantages in health services in the international market, the Latin American and Caribbean countries had comparative advantages in terms of the low cost of labour, some availability of highly qualified personnel and cultural affinities. However, they were at a disadvantage in such areas as access to medical equipment, level of technological development, managerial knowledge and access to marketing networks.

90. The most important barrier to the export of health services had to do with the reimbursement of treatment costs by insurance companies. Another barrier related to the requirements for consumer protection, including malpractice insurance.

91. The main issues that must be considered in order to come up with guidelines for formulating policies at the national level included the contribution of the exportable health services sector to economic development, the strategic importance

of the health services sector for national development, the role of regulation in a liberalized environment, promotion of technological development through private, national and foreign investment, the impact of the mobility of health personnel on exporting and importing countries the importance of health insurance in international trade in health care services, and guaranteeing adequate care for patients receiving part of their treatment abroad.

92. The most important issue to be examined was the definition of policies and mechanisms to support growing participation by developing countries in international trade in health services. The risks were great, because the absence of adequate policies, mechanisms and regulatory frameworks could be detrimental to the health service coverage of the local population.

93. The representative of **Trinidad and Tobago** said that measures suggested in document TD/B/CN.4/23 could not be undertaken in a period of structural adjustment, as investment in infrastructure, developing human resource capabilities, and increasing access to technological advances all required substantial financial resources. Her country had taken a number of steps to create a favourable climate for attracting foreign investment. However, this experience showed that interest remained highest in areas of economic activity related to the natural resource endowments of her country, while inward investment in the services sector favoured activities related to tourism services. Within the framework of the Uruguay Round, her country had framed its initial commitments on market access and national treatment in a way which would allow the country to develop its services industry in accordance with national development strategies. With respect to the opportunities for exports of services as a result of the Uruguay Round, prospects for improving trade performance in services appeared limited, and paragraphs 70 to 72 of the secretariat report (TD/B/CN.4/23) were relevant in this regard.

94. With regard to future work under the Standing Committee, UNCTAD should undertake a thorough examination of the commitments made in the Uruguay Round and analyse areas where developing countries could reap benefits from them. Assistance might also be given to developing countries in connection with the continuing negotiations on telecommunications, maritime services, movement of natural persons and financial services to ensure that the results would be favourable to the development of the services sector and trading possibilities on the developing world.

95. The representative of **Chile** said that a programme to assist the services sector was in operation in Chile with a view to identifying national service sectors with export potential in order to obtain better access to external markets by means of international negotiations and the development of services export promotion strategies. More specifically, it was intended to: evaluate the contribution of the national services sector in terms of its importance with regard to GNP generation and its potential for development in different regions of the country, by means in part of an analysis of the impact of the services sector on the balance of payments and the identification of main sources of comparative advantage; identify elements for the development of strategies for export promotion; identify the internal and external difficulties faced by Chilean exporters of services; make an inventory of the regulatory and operational mechanisms interfering with the objectives of the programme; and identify elements for defining strategies to support bilateral or multilateral negotiations.

96. Three service activities were under study, namely the provision of business services, engineering and construction services, and financial services. Concrete actions for the development of these sectors included setting up a unit on services and investment, identifying and strengthening the potential supply of service activities to be negotiated bilaterally with selected countries of destination, undertaking a comparative analysis of international agreements in order to negotiate adequate access to markets, and setting up a database on the restrictions affecting services imports from Chile, based on the UNCTAD prototype. In this respect, there was an urgent need for Chile to obtain access to the MAST software programme presented by the secretariat to the Standing Committee.

97. Other supporting activities under the programme included implementing sectoral projects and studies and promoting seminars and consultancy with public and private agents.

98. The representative of **Cuba** said that the Cuban Government had made considerable progress in understanding the role of services in the economy through the preparation of a diagnosis of the services sector with technical support from UNCTAD. This diagnosis showed the key importance of the sector in terms of the generation of value added and employment. Many service sectors showed great export potential, including tourism, maritime transportation, some professional services, construction and engineering, and health services. Specific policies were now being implemented to foster the development of this export capacity. Adequate legislation and rules would have to be prepared for the services sectors with a

view to supporting their competitiveness, and concrete actions were being taken to that end, including preparation of background sectoral studies and organization of seminars and workshops.

99. With regard to tourism, to foster the competitiveness of the sector and to capitalize on its comparative advantages, it was intended to develop a system allowing close monitoring of the performance of the sector. Similar efforts were also being made, in the context of the liberalization of tourism, to strengthen the negotiating capacity of Cuba within the framework of multilateral, regional, subregional and bilateral schemes.

100. The development of the maritime transport sector was facing great difficulties due to the application of unilateral restrictive measures by one country. To neutralize the impact of such measures, specific policies were being implemented to develop and strengthen the competitiveness of the sector.

101. The representative of the **World Tourism Organization** (WTO), referring to issues related to tourism and the results of the Uruguay Round Negotiations on Trade in Services, said that WTO had collaborated with the secretariats of UNCTAD and GATT in facilitating the understanding of the implications of the Uruguay Round negotiation process for tourism and had produced a study in this regard. Although the classification of services under the General Agreement on Trade in Services caused some distortion in perceptions of the tourism sector, the GATS could bring some benefits to the development of the tourism sectors in developing countries. Their relative strength lay in the availability of tourism resources such as competitive labour and tourist attractions; their weakness, however, came from their general absence in the distribution networks that brought tourism consumers.

102. The strategic objective of developing tourist-destination countries should be efficient use of resources and retention of tourism-accrued value added. The GATS would facilitate the attainment of this objective if its clause on "Increasing participation of developing countries" was implemented appropriately. This would require that tourism policy-makers take part in the remainder of the Uruguay Round negotiations, as well as the future rounds of negotiations.

103. Finally, it would be necessary to develop a more comprehensive perception of tourism services, so that such services could be better related to tourism and general economic and social policy objectives. The GATS negotiations had confirmed the importance of tourism services for liberalizing trade in services and for the

attainment of the development objectives of developing countries. Tourism policy-makers should therefore be included in the trade negotiating team.

104. The representative of **FUINCA** informed the members of the Standing Committee that a cooperation agreement had now been signed between FUINCA and UNCTAD. FUINCA was particularly interested in supporting the work programme of the Standing Committee on Developing Services Sectors, especially regarding the use of and access to networks in developing countries. All the background studies on the topic of electronic information and databases prepared by FUINCA during the last 10 years could be made available. The areas of cooperation where FUINCA could support work programme activities included: working together with UNCTAD in assisting developing countries to establish specific policies and regulations in the area of telecommunications, value-added services and the development of a market-place for information services at the country level; joint implementation with UNCTAD of pilot projects in countries and areas of common interest; exchanging information with and assisting UNCTAD when requested on the preparation of studies in the area of telecommunications; support for UNCTAD in the organization of groups of experts to discuss issues related to use of and access to information networks and channels of distribution; and exploring the possibilities for developing on-the-job training programmes.